FIRST QUARTER – 2023 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	1Q23	2023
S&P 500	7.50%	7.50%
S&P Mid-Cap	3.81%	3.81%
S&P Small Cap	2.57%	2.57%
Morgan Stanley's EAFE (International Stocks)	8.47%	8.47%
Barclay's US Aggregate (Bonds)	2.96%	2.96%

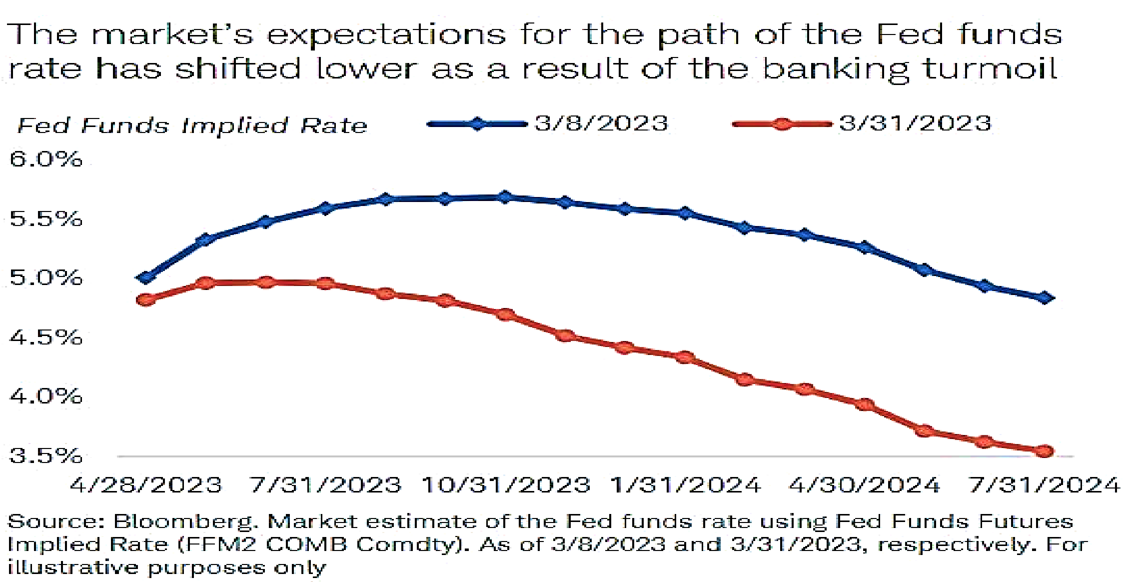
We are proud to announce that we have hired Elizabeth (Beth) Cann as our new Administrative Assistant. Beth brings over 20 years of administrative experience to the Firm. She formerly worked for a large insurance broker. She resides in Zelienople with her fiancée Bryan, is an avid sports fan, reader, and movie buff.

We also wanted to communicate that YAIA did recently complete its first SEC limited scope audit in March; this is typical for newly registered SEC Firms. It was an extremely intensive effort and no follow-up action was currently necessary. Future SEC audits will likely be much more in-depth and will be conducted on-site.

ECONOMY & MARKETS:
Calendar year 2023 started out with an advance of both the stock and bond markets. Moving into February, interest rates rose and the ten-year Treasury bond breached 4% for the second time in a few months. As we then moved into March, volatility once again picked up for a few reasons:

- Chairman Powell cautioned that interest rates are likely to head higher and remain elevated more than central bank policy makers had previously expected. *This notion is relatively consistent to our previous forecasts in that inflation will continue to come down, but the Fed will have trouble reaching their 2% goal due to structural and ancillary issues that will keep inflation high.*
- Serious issues with a few West Coast banks spooked the markets and the banking sector. Most notably, Silicon Valley Bank's failure due to lack of diversification by being over-leveraged through investments in long-term debt securities that were not hedged properly for interest rate hikes. This coincided with customers withdrawing funds rapidly for fear of the Bank's solvency. *The government and Federal Reserve stepped in to protect all of the Bank's deposits.*

After these events took place, economists' predictions for future interest rate increases changed rapidly. The current expected path of interest rates is now drastically different from a few months ago. As outlined below, the markets are now predicting the Fed will peak its interest rate hikes and shortly thereafter, reducing rates in an effort to stimulate the economy. While not depicted below, we will note the market's expectations are slightly more aggressive in its downward trajectory in comparison to the Fed's stated projected interest rate path. Quoting Liz Ann Saunders from Schwab *"there is often a huge difference between what investors **think** the Fed should do and what the Fed **says** its planning to do."*



The markets have still remained heavily influenced by these interest rate forecasts. It remains our belief that we are approaching the peak in interest rates, which ideally should provide some stability to the stock market. Similar to market consensus, we do believe the Fed is poised to start reducing interest rates at some point, likely later this year. We believe there is inside pressure on the Committee to reduce rates not just to ease the balance sheets of banks holding longer-term Treasuries, but also to not "overshoot" the rate hikes. The main area to where we remain skeptical is we are not convinced inflation will reach the Fed's long-standing 2% objective given certain structural issues causing inflation. Time will tell how the Committee decides to handle these dilemmas in what appears to be only a few short weeks away.

Economic Statistics	*Most Recent*
▪ GDP growth rate	4Q22 up 2.6%
▪ Inflation (CPI) *year-over-year*	March up 5%
Core CPI *(excludes food & energy) year-over-year*	*March up 5.6%*
▪ Unemployment rate	March up 3.5%
▪ S&P 500 Forward P/E ratio	17.8

As you may know, Komal has authored in several Publications & Newsletters. This Quarter we thought of sharing with you a pertinent article published on "Stocks Splits and Spin Offs". The write-up explains the differences between the two by citing a few examples. In 2022, various stock splits and spin offs were a center of many news headlines. Notable amongst them were Tesla Stock Split 3 -for-1, Amazon 20-for-1, Shopify 10-for-1 & Alphabet 20- for- 1. Spin-offs also became popular last year. Parent company AT&T's spin-off of new company Warner Bros. Discovery. Intel spun out its subsidiary business Mobileye, the Company providing technology for automotive applications.

Stock Splits and Spin Offs, No, This is Not a New Netflix Show. It is However a Popular Buzzword on Wall Street.

May 4, 2022

By Komal Motwani, CFP®

While 'stock splits and spin offs' does sound like a fast-paced money heist themed drama, it is however far from it. Most recently, the news was flooded with two giant companies "Google and Amazon" stock splits announcement occurring in 2022. Seems fast paced and dramatic? It is! Read on to learn what it means and what all this drama leads to.

What are stock splits and how are they different from AT&T's Warner Brother Discovery spin offs?

Let's take a simple analogy of a pie, because who doesn't like them? The fragrance of a freshly baked pie wafting down the street on a warm summer afternoon. Nostalgia! Now that you've imagined that let's take the reference and apply it to finance. A pie is cut into four big pieces and shared amongst four people. Now if you decide to cut smaller pieces and share it among eight people, this will not reduce the actual size of the pie but rather have more people relish smaller portions of the same sized pie. Similarly, a stock split occurs when the company's board members decide to lower the price of its stock by splitting each stock share in more than one share. The market capitalization or the company's total value of all shares traded on the stock exchange is calculated by multiplying the number of total outstanding shares by current share price, like a pie does not change in total value even if the number of shares has increased and the price per share has been reduced, it is merely a cosmetic change. Generally, investors are more comfortable purchasing 100 shares of $20 price per share vs 20 shares of $100 price per share. In a stock split the total dollar value remains the same but the number of outstanding shares increases, thus increasing the liquidity of the stock.

For example, Google announced a 20:1 stock split this year in an attempt to help broaden the shareholder base, which will take effect on 15 July 2022, subject to shareholder approval. “The company’s success has attracted scrutiny, particularly in the area of digital advertising, with the business facing anti-trust lawsuits across a number of US states in the past few months”, Michael Hewson, chief market analyst at CMC Markets commented.

A few reasons why a company decides to do a stock split are, if the stock price of the company is too high then it makes it expensive for investors to acquire the company’s shares and second an increase in total number of shares trading on an exchange helps to increase liquidity. Higher liquidity narrows the bid-ask spread for buyer and seller.

Amazon announced in March of 2022 a stock split of 20 for 1 occurring in June. One share of approximately $2,700 will now be divided into 20 shares of $135-140 each.

Let’s look at a reversal of this strategy, “a Reverse stock split”. Just as the name suggests, reverse stock splits are contrary to the above strategy. Think, building the pie back to bigger pieces. Here the companies intend to reduce the number of outstanding shares and increase the share price. Again, this will not have an impact on total company’s value. The most prominent reasons why a company does a reverse stock split is when the share prices are too low and may cause the company to be delisted from an index or if the company wants to increase the share price to influence analysts and institutional / large investors.

AT & T completed the spinoff of Warner Brothers Discovery. All the shareholders of AT & T who held the shares until the end of the closing date of the transaction will receive an estimated 0.24 shares of Warner Brothers Discovery for each AT & T common stock.

In a Spin-off, the parent public company separates one or more businesses or divisions into a newly formed publicly traded company. Think, Pie again. It is still the same sized pie. A part of that pie is now called a cake. Cosmetically you’ll now own a pie and a cake. Technically, it is still the same pie being recycled for financial implications. The newly formed entity will be traded separately on the stock exchange under its own new ticker/symbol. Existing shareholders now benefit from holding shares of two separate companies. The parent company creates a spin-off by distributing 100% of its ownership in that business as a stock dividend to its existing stockholders. Spin-offs may prove to be lucrative as the management teams of separate companies will be able to focus on their core business models with better utilization of resources and streamlining workflow thus leading to superior performances and profit margins.

All the above strategies have their own merits and demerits. It ultimately depends on each company's strategic planning and goals and objectives.

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About the Author

With over 10 years of experience in the fields of Investment and Financial Planning, Komal Motwani has worked and studies in institutions across globe, from India to Singapore and the US.

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